

DEPARTMENT OF INFORMATION RESOURCES

OPEN BOARD MEETING

Wednesday, February 3, 2016, 10:00 a.m.

300 West 15th Street, Clements Building, Room 103 Austin, Texas 78701

MINUTES

PRESENT

John Scott (Board Chair)
Stuart Bernstein
Keith Morrow
Wanda Rohm (video conference)
Linda Shaunessy
Rigo Villarreal (video conference)
Darran Anderson, ex-officio
David Mattax, ex-officio

ACTION

Mr. Scott called the meeting to order at 10:03 a.m., with a quorum present.

TOPIC

2. Interim Executive Director's Report

Mr. Todd Kimbriel, Interim Executive Director, began his overview with welcoming our new board members. We are very pleased to have you on our board and I would like to thank you for volunteering your service to Texas and DIR through your participation on the board. I look forward to working with each of you! Mr. Kimbriel thanked our board members whose terms recently expired: Robert Pickering, Richard Moore, Cindy Villa and Arthur Troilo. We deeply appreciate their service to Texas, DIR and the many contributions they made through their collective 20 plus years of service as board members.

Mr. Kimbriel informed the board of the overview for all of DIR's program areas in order to assist our new board members in gaining a quick understanding of DIR, our mission, and an updated understanding for standing members. Each member of our leadership team will provide a presentation for their respective areas. We found that by having each leader do their own presentations it gives the board an opportunity to engage directly with the leadership team and to get to know them better. Although we normally walk through program updates in our quarterly scheduled board meetings, we will be diving a bit deeper and broader today. What is different today is that we have no actions for the board to consider and vote on.

Mr. Kimbriel informed the board the next Board is scheduled for February 25, 2016.

TOPIC

3. Finance Update

DISCUSSION

Mr. Nick Villalpando, Chief Financial Officer, provided a brief overview DIR's budget and funding structure. DIR is rather unique in how DIR funds our operations. Mr. Villalpando discussed DIR's budget development, fee setting processes, and the income statement view of our Fiscal Year 2016 budget. As a cost recovery agency, DIR is mandated with generating and collecting enough revenue from the services it delivers to customers to pay for all expenditures. The State of Texas budgets on a two year cycle. We are currently in Fiscal Year 2016 which started on September 1, 2015 and ends on August 31, 2016. We are in the first year of a two year biennium. The General Appropriations Act (GAA) is the budget bill that gets passed each legislative session. For DIR, the appropriations bill grants us the authority to

spend the revenue that we generate. Unlike the majority of state agencies, DIR does not receive any general revenue or general revenue dedicated funding. Mr. Villalpando informed the board much like a business enterprise, we must forecast customer demand for DIR services and ensure that we meet customer expectations with the services that we deliver because it's the revenue that we generate that is used to fund our budget. The majority of eligible customers includes state agencies, institutions of higher education, school districts, cities and counties.

Mr. Villalpando discussed that DIR must generate sufficient revenue to cover annual expenses. We have a four step ongoing process that we follow to ensure that our fees are set appropriately, to quantify the agency's operating costs that need to be recovered. Those costs are categorized into direct program costs and indirect administrative costs. Direct program costs consists of costs directly associated with delivering a specific service (telecom, datacenter, etc.) and indirect costs include costs such as accounting, budgeting, legal, internal IT costs, etc. DIR then forecasts customer demand for the various services delivered by DIR. There are three broad categories of services for which DIR charges an administrative fee. Cooperative Contracts are used by customers to purchase technology goods and services. The Data Center Services program delivers a range of services such as servers, print mail, and some cloud services such as Office 365. Communications Technology Services delivers various telecom services such as voice switched minutes, point to point circuits, internet, etc. Fees are then set at levels necessary to recover our costs based on the projected volume of services that we anticipate delivering in a given fiscal year.

Mr. Villalpando discussed how DIR monitors our financial results throughout the year and takes corrective action, if necessary. Our monitoring includes revenue analysis, collections on accounts receivable, and budget to actual comparisons. In the cooperative contracts program, vendors sell technology goods and services to eligible customers and then pay DIR a fee based on total monthly sales. The vendor's price to the customer includes the DIR fee.

Mr. Mattax how is the .65% fee arrived at?

Mr. Villalpando responded that the first step in that process is looking at what are those expenditures that need to be recovered to operate the agency. Not only the direct program cost of the Cooperative Contracts program such as managing contracts, initiating procurements and monitoring vendors, but also the cost associated with delivering other services such as cybersecurity, oversight of the Texas.gov portal, as well as the policy and planning division.

Mr. Mattax asked is that fee set by the board or is it a delegated function?

Mr. Villalpando answered the fees are approved by the board. It's a function that the legislature has delegated to the board.

Mr. Mattax asked is the fee set biennial, annual basis or changed at any time.

Mr. Villalpando responded it is set on an annual basis. DIR estimates on biennial basis for that biennium on what we think the fees will need to be. They're actually set and approved on an annual basis. To the extent we need to take corrective action if we see that the revenue is not coming in as anticipated and we have necessary expenditures that need to be made that fiscal year, the fees can be changed during the fiscal year but would require board approval.

Mr. Mattax commented on the 2.95% administrative fee which is not charged to vendors but to state agencies. Is that statutorily set or administratively set by the Board?

Mr. Villalpando states that it is not statutorily set but the ability to charge the fee is in our enabling legislation. Currently set at 2.95% and the board does have the approval to set, however any change in that fee does need to be requested from the LBB as well as the Governor's office subject to their approval. We are not able to change the 2.95% on the data center services without the approval of LBB and the Governor's office.

Mr. Mattax asked so this board would have to approve the fee then request approval from LBB and the Governor's office?

Mr. Villalpando responded yes, contingent on approval from the LBB and the Governor's office.

Mr. Scott asked how much notice do we have to give if we want to change the cooperative fees. How much notice do we have to give to put that on the next meeting?

Mr. Villalpando answered in terms the cooperative contracts because that is purely subject to the board approval, we're able to get those requests in to the Board fairly timely. The challenge becomes operationalizing that change within administrative fees with the vendor contracts that we have. It would take six months to a year to get through all those contracts to make those changes.

Mr. Mattax asked can you build in a range of fees in the contracts so even though today we charge this in your contract and DIR already has it built in by the vote of the board, that the fees can be increase by a certain range?

Mr. Villalpando answered that is a possibility. This is definitely a possibility and something we are looking into.

Mr. Stuart Bernstein joined the meeting at 10:21 am.

Mrs. Shaunessy asked if we change the fee, do we change for future contracts or are you applying to contracts that are in effect. If you not applying to contracts that are in effect, how long could a contract be in effect until a change occurs.

Mr. Villalpando responded we can change the fees on existing contracts but it will be for future purchases that are made by customers.

Mr. Villalpando informed the board that in addition to paying for the costs to administer the cooperative contracts program, it is important to note that the revenue from this program also pays for services that we deliver through our cybersecurity, policy and planning, and our oversight of the Texas.gov program. In the Data Center Services Program, DIR adds a 2.95% fee to customer monthly invoices. This fee is added to the amounts invoiced by the DCS vendors. These vendors invoice DIR and we then bill each customer. DIR's Communications Technology Services division also charges administrative fees to recover operating expenses. DIR operates the Capitol Complex Telephone system as well as provides the TEX-AN Statewide telecom network. We also offer several contracting vehicles, much like cooperative contracts, where customers can procure telecom goods and services directly from vendors.

Mr. Mattax responded CTS indicated a wide range on fees, can you give a couple of examples you have between 2% -12% for services. Please share reasons of why you have that range.

Mr. Villalpando answered the primary reason is based on volume, a higher volume on certain services; we are able to charge a lower fee because it is going to generate a higher level of revenue. We look at the elasticity of that pricing to ensure the fees we charge can be paid by

the customer agencies for that type of service. We also look at benchmarking, what our pricing should be, what it cost to deliver that service, and once you see the volume; what is the fee rate and the percentage we need to set in order to generate the revenue needed. Several factors go into the establishing the individual administrative fees that we collect.

Mr. Scott asked along the Data Center Services, what are the profits for some of the different vendors we have? We charge 2.95% on top of whatever else state agencies are paying to the vendor. What is that number? Are we providing something that is in the best interest of the agencies from a dollar/cents standpoint? Or would they be better on doing it on their own?

Mr. Villalpando answered from the DCS program, one of the things we do is benchmarking of the pricing/cost of what our customers are paying. Our contracts allow for DIR to initiate bench marking exercise periodically throughout the term of contract to determine and ensure our pricing is competitive. We have done benchmarking exercises, and we identified some instances where our pricing was not as competitive as we would have like it to been, particularly in storage services. I think we identified approximately four million dollars in some additional savings in that particular service area to bring our cost more in line to what is out and available in the market. One of the challenges as we look to benchmark particularly in data center services is that customers are able to go out and look at the cost of getting servers through a particular vendor in the open market place. The services that we currently provide within the data center program include a range of additional services over and above the provision of that service. When you come to the DIR program, you are also going to get a certain level of security, management, inventory of servers, and compute. There is a whole host of services that we overlay on top of that individual delivery of that one server. It's not just a particular comparison that I can go get a server at this rate at the open market.

Mr. Scott commented it seems like it would be played to our benefit. We should be providing larger supply and have purchasing power on all the variables listed, we're doing it for so many different people that we are able to spread those cost. Why would we ever be at a competitive disadvantage from a smaller agency, example Commissioner Mattax agency? Why would we not be able to get a much better deal for TDI than TDI could do?

Mr. Villalpando responded one of the things we considered when the contract is initially awarded and negotiated, over time that's why we have those bench marking clauses within those contracts. Over the course of several years the technology environment is going to change. We want to ensure that we are actively benchmarking and looking at the pricing of our servers to ensure that they are competitive. To the extent that we identify potential issues where we may not be as competitive priced as we would like to be, we take corrective action to address that particular issue. Apples to apples comparison of the services that are delivered within the data center program given the security nature, various requirements that are needed for agencies to feel secure. Once you compare apples to apples comparison, the pricing is fairly competitive.

Mr. Anderson commented that one of the challenges that he experienced is that in DIR's case there could be a promise of potential need over time when dealing with a number of vendors in DCS. Where there may be an instance when we come in and say we have an immediate need and we know we have an x amount of requirement that we know we will buy right now. In those odd cases, the vendor could say we're interested in giving it to you at a lower rate. They're instances like that could occur, but we have the flexibility to come back to DIR and say we are hearing from this vendor/company that are looking at a better way of doing it. Can we work with you (DIR) to make it happen?

Mr. Kimbriel commented where we find apples to oranges, I would like to describe it differently as commodity pricing vs. service price. When we look at the core commodity of a server, the program requires a better price than an individual agency can get. That's a commodity comparison. When we look at the end price that someone pays at the end of the month for the server operations, those are the layers of service that exist that the program offers that if an agency buys that commodity they would have to have those same services factor into their human infrastructure. They would have to have firewall management, server patch management, and all those skills that human resources shifted into the data services program. Therefore, most of the data center customers should no longer have those skills available. When you consider pricing, the program does get better commodity pricing, but it appears as a service price not just a commodity price.

Mr. Mattax commented on the telecom services; you have a bigger margin, basically 13 million dollars vs. DCS is much smaller. Then you look at operating expenses it is much higher for telecom than it is data center. Mr. Mattax asked why we have a higher margin and higher cost for telecom verses DCS.

Mr. Villalpando responded within the data center services program, DIR is providing the oversight, the contract management for delivery of those services. In that program DIR is not taking orders from the customers. This all happens through our service providers that we have participating in that program. The majority of the cost that what we incur for data center is to deliver and provide oversight for delivery of those services. In the telecommunications division, the majority of the services we operate the TEX-AN network and we do have vendor partners that deliver the service but we are actually taking in orders, processing those orders, submitting orders to vendors, getting circuits, getting dial tones set-up, basically we have a much greater operational role that we play within the telecommunications program, than we do within data center program. This accounts for the additional operating expense that we incur with that particular program. We are billing the customers then we're collecting the revenue from those customers. The basic difference within those programs, is that there is more of an operational role. DIR is more on the service delivery side of that particular operation within the telecom group than within data center services group. That accounts for the higher operating cost in the telecom group.

Mr. Villalpando touched briefly on the typical items that we bring before the Board for review and approval. During the summer of even numbered years DIR staff will present the Legislative Appropriations Request (LAR) to the Board for approval. The LAR sets forth DIR's budget request for the next biennium to the Legislature. In addition, each year, typically during the August board meeting, DIR staff present the agency's operating budget, which is based on the approved LAR and general appropriations act, to the Board for the following year for approval. This process also includes approving the fees to be charged by DIR. Finally, given the changing nature of customer demand for our services, we may need to bring budget amendments for your review and approval throughout the year.

Mr. Mattax asked does that need LBB approval.

Mr. Villalpando responded only if it is going to cause us to increase or go above our appropriation's request.

Mr. Mattax asked is there a cap of fund balance?

Mr. Villalpando responded in the cooperative contracts program we have a 10% cap on revenues then within telecom funds and data services fund we have a two month cap of our operating expenses. Should we exceed our maximum fund balance that we are allowed to

maintain, the budget riders and appropriation act calls for a process of initiating rebates to our customers at the discretion of the LBB.

Mr. Bernstein asked have you exceeded it before.

Mr. Villalpando responded yes the agency did back in 2011. Prior to 2011, the agency did not have the maximum fund balances established. During that session and certainly through the sunset session, it was recommended to the legislature and to leadership that DIR have some fund balance restrictions placed on the agency to ensure that the agency is truly only charging what it need to fund its operations not massing significant fund balances. We have been able to manage within those restraints over the last several years since that was changed.

TOPIC

4. Internal Audit Update

DISCUSSION

Lisette Nadal-Hogan, Director of Internal Audit, provided an overview of Internal Audit. The mission of Internal Audit is to collaborate with DIR's leadership to fulfill the agency's core mission by providing independent and objective audit services designed to add value and improve the effectiveness of risk management, control, and governance processes. Ms. Nadal-Hogan also discussed the reporting structure of Internal Audit. We report directly and functional to the DIR board and administratively to the Executive Director.

Mr. Mattax commented you have the Governor at the top of the reporting structure, do you feel if you ever needed to, you have the authority to go directly to the Governor.

Ms. Nadal-Hogan responded no, I will not go directly to the Governor, because my direct function is to the DIR board.

Ms. Nadal-Hogan informed the board of Internal Audit responsibilities to the board and the board's role for Internal Audit. Ms. Nadal-Hogan informed the board of items that will need approval by the board during the year. The following items are Internal Audit Annual Plan, Internal Audit Annual Report, Internal Audit periodic reports, special projects and charters.

TOPIC

5. Office of General Counsel Overview

DISCUSSION

Mr. Martin Zelinsky, General Counsel, provided an overview of the Office of General Counsel. The Office provides advice and counsel to the board on board operations; compliance with open meetings act, quorum rules and executive sessions, and new member board training. The Office also provides advice and counsel to all the agency operations serves as a contact for fraud, waste and abuse issues, and personnel matters with Human Resources. The majority of the attorneys' time is working with contracts, working with the solicitation, drafting, review, and approval of all contracts for signature, whatever contracts DIR needs to sign off on and contract disputes. The Rulemaking office is with the General Counsel. Our rulemaking is what we will be bringing to you at the board meetings. DIR requires that the board approve any notice of rule review, proposed rules and any final rules to be adopted, these will be action items for the board agenda.

Mr. Scott asked if the rulemaking that is done by DIR impacts a little bit or a lot of operations at other state agencies IT departments?

Mr. Zelinsky responded it can be a lot. Let me distinguish between policy, statues, rules and all the above. Generally, we can't make a rule without statutory authority to do so. We have a couple of chapters for example Chapter 201, which is about our internal board operations. It sets the rules that previous boards have approved on what type of contracts the board wants to approve, what donations the agency may accept – technology donations. Most of our other

chapters other than 201 affect state agencies very directly in a significant way. Chapter 202 is probably the best example of that, those are our information security standards. Those are probably the most scrutinized of all our chapters of rules and they directly impact security operations at other agencies.

Mr. Scott asked is there an inventory of the universe of rules and which agencies that impact more so than others?

Mr. Zelinsky responded the next slide is the process by which we create the rules. The entities that are impacted by our rules are generally state agencies, one that impacts local government, but generally state agencies. There are constituents through our customer base and we work with the agencies very closely and consistently to develop the rules. If we are working on a new proposed rule, we would gather agencies (stakeholder groups) that we know or think that will be impacted. We bring them together and create the strawman proposed rule, then we solicit informal comments from a wide range of state agencies before we even bring to the board for approval. We are required by law to visit with higher education, the Information Technology Council for Higher Education known as ITCHE. It's headed up by UT Systems CIO – Marge Knox. We visit with them once a year to layout our rulemaking plan that we know of. Any proposed rule goes to them and we try to give them 90 days to review it before we would bring a proposed rule to the board for approval. Given that process, our goal is to actually have no comments to a proposed rule that is published in the Texas Registry.

Mr. Scott asked with technology being innovated and invented, how do we make sure that our rules do what was five years ago to address what was at the front end of technology are current today for what technology is available? Do we go back?

Mr. Zelinsky responded that all agencies are required by law to review their rules every four years at a minimum. In between the four years, during odd numbered years when there is a session, a bill may get passed that impacts one of our rule chapters, which happens every session. We will amend our rules right there on the spot, we may or may not take a deeper dive and look at other things. But at least amend the rules for that particular action. If we have done nothing in the last four years, it goes into the rule review schedule.

Mr. Zelinsky informed the board that General Counsel also includes the Public Information Office. Anyone who wants public information can request it. This is true for all state agencies and there is a very rigid process, time bound, that we have to comply with and we managed that process. If an opinion is needed from the Attorney General regarding a matter as to whether or not it's confidential or falls under one of the exceptions, we would draft the opinion request and send it to the Attorney General and manage whatever comes out of the process. Board correspondence from us to the board is subject to the Public Information Act. Mr. Zelinsky also serves as the ethics officer for the agency. The records management office was recently transferred to my office and our records management officer is Rebecca Malcolm, who manages record retention and destruction of records at the appropriate time.

Mr. Scott asked what the record retention schedule is for emails.

Mr. Zelinsky responded it is not the source of the document, so email, itself does not have a retention period and it would be the content. If it's an email about a contract, it will be whatever the contract is, which is now 7 years. If it is simple correspondence it may be 2 years.

Mr. Scott commented ours used to a roll off of 30 days. I think the Governor's office is now 30 days. Is there not an automatic roll off or archive?

Mr. Zelinsky responded there is not yet. Since this office was transferred to Legal, we are looking at a variety of policies and tools to implement something along those lines. We do not have the policy currently in place, but are looking at it.

TOPIC

6. Chief Technology Office Overview

DISCUSSION

Mr. John Hoffman, Chief Technology Officer, provided the overview for the Chief Technology Office. The Chief Technology Office has three key areas of focus for DIR and the State. Technology Planning, Policy, and Governance which focuses on Strategic IT planning and toolkits for state agencies, Enterprise Solution Services which provides Technical IT solutions and IT leadership for the state and the third, a Strategic Planning for DIR which drives DIR to be proactive and purposeful in our efforts.

Mr. Hoffman informed the board of the technology planning team establishes IT standards, best practices, creates resources, and provides training and technical assistance for State Agencies to leverage. There are several reports generated by the Technology, Planning, Policy and Governance team to highlight in today's discussion. The State Strategic Plan (SSP) for Information Resource Management is a key document used by all of the State Agencies in their strategic IT planning. The Technology Planning team works with internal and external stakeholders and technology experts to produce this report every two years. In this year's Plan there are 5 Goals set with 15 technology focus areas. Some of the technology focus areas under the goals are Continuity of Operations, Connectivity, IT Funding, Cloud Services, and Open Data. The direction set in the State Strategic Plan the Biennial Performance Report is a report created and provided to the Legislature.

Mr. Hoffman informed the board of another strategic enterprise planning effort tied to the State Strategic Plan is the Information Resources Deployment Review (or IRDR). The IRDR is a survey completed by each agency that provides a review of the operational aspects of each agency's information resource deployment and their efforts in support of their agency's mission, goals, and objectives. It illustrates how the different agencies' deployments are supporting the State Strategic Plan as well as the agencies' missions, goals and objectives. It illustrates how the different agencies deployments are supporting the State Strategic Plan as well as confirmation by the agency of compliance with the state's IR-related statutes, rules and standards. In addition to the Strategic Planning efforts the TPPG team oversees several key statewide programs in IT. One of these programs is the Project Delivery Framework which is designed for major, large-scale IT Projects. It walks agencies through the standard phases of projects: Initiate, Plan, Execute, Monitor & Control and Close. Projects over \$1M and are either multiagency, over a year in duration or they substantially change the delivery of services are required to provide this framework information to the Quality Assurance Team or QAT. DIR participates on the QAT along with Legislative Budget Board and the State Auditor's Office which reviews, approves and monitors state agency major IT projects.

Mr. Hoffman shared that the Policy and Planning team also supports the agencies through Education and Outreach opportunities to IT Leaders and their staff at each of the agencies. This is done through various training classes, webinars, forums and conferences throughout the year. The last focus of the TPPG team I will mention today is the Statewide Electronic Information Resources (EIR) Accessibility role. Accessibility is critical for state employees and citizens with handicaps to effectively use IT commodities and services. Within the Policy and Planning team the State's EIR Accessibility rulemaking, education and guidance is developed. The effort is to educate the customers about accessibility, point them to resources and tools that can help, collaborate on solutions and support their efforts to make Texas government information and services accessible to everyone.

Mr. Hoffman shared the second area of focus in the CTO team is Enterprise Solution Services members who concentrate on Technical IT solutions and IT leadership for the state. A key resource in understanding the current IT landscape within Texas is the Legacy Systems Study Report published a little over a year ago by the Enterprise Solution Services team at DIR. This study, defined by HB 2738 in the 83rd Legislature, identified 4,130 business applications within Texas agencies. Over half of those were confirmed to be in Legacy status, which means that at least one component of their applications hardware or software is no longer being supported by the vendor.

Mr. Hoffman informed the board that several of these efforts were identified in HB 1890 and are now being piloted and developed to assist the agency IT leaders. The first is an Application Portfolio Manager which, in its end state, will effectively enable information gathered in the study to be maintained centrally and through a shared service. This pilot has 7 agencies importing their system data to develop governance, best practices and considerations on requirements for a statewide shared solution. Another pilot born from the Legacy Study is to understand business analytics and reporting. This pilot is currently in procurement evaluation. It will provide direction on consolidation of different software and hardware into a shared solution and would provide agencies a higher level of business intelligence and analytics capabilities. Analytics is an exploding field of technology as the amount of data gathered is growing exponentially. Every sensor, camera and scanner is providing enormous amounts of data gathered by the state. How we overlap these data points to understand situations and trends will enable us to provide effective solutions for agencies and ultimately the citizens. It is a huge opportunity for all of us. Ed Kelly, DIR's Statewide Data Coordinator works closely with us and will speak to his efforts in this area as well. An Application Development Decision Framework is also being developed to be consistent structure and a resource to agencies as they build or purchase new applications.

Mr. Hoffman shared each of these efforts is to build the technology abilities within the state and provide really strong alternatives agencies want. It also enables DIR to make recommendations to leadership. The Enterprise Services Solutions team is working with the Information Security team and Legislative Budget Board in the prioritization of Cybersecurity and Legacy Modernization projects. HB 1, Article IX, Section 9.10 instructs us to provide the LBB with recommendations for prioritizing project requests. (Giving our perspective of priority on the Legacy Systems). A final Legacy Modernization Strategy incorporating these efforts and other opportunities is being generated.

Ms. Shaunessy asked what are you doing to help agencies improve their Cybersecurity and also what strategies do you recommend if there is a data breach. Is there a plan in place if there is a data breach on one of your contracts? Is there a plan to what actions the state agency should take or is there insurance that will come in. What happens in case of data breach?

Mr. Hoffman responded we are doing education and understanding of TAC 202 rule set, policy and guidance and how different things should be set up and concerns. A lot of training and program there as well to make sure the individuals within IT understand cyber threats and how those are done. There is a breach policy that each agency is assigned a security office, security office has identified responsibilities each time an issue comes up for reporting to the CISO as well as actions they have to take within their agency. There is particular concerns around an application, around Legacy status, or a vendor is no longer supporting that software. We work with each agency to identify that and believe to block the traffic or create a workaround whenever we can. It's in a prioritize solution in that framework of what do we fix first, we certainly want to fix those who have the security issues.

Ms. Shaunessy asked do agencies report data breaches that relate to your agreements or vendors that you have recommended or does that not.

Mr. Hoffman responded yes it is required that agencies report any breaches or threats through the CISO office. Those are tracked and compiled.

Mr. Scott asked do we take them off the list if we find that they made representation about what they were doing, when in fact they were not doing it. How quickly do we get the vendor off the list? Mr. Scott commented they are making representation about security and we have standards that we believe are sufficient, so either what we believe is right is now wrong or we have vendors that were representing they were doing something and they were not. Either way I guess we have to proactively do something. What do we do?

Mr. Hoffman responded we proactively work with the rule set for vendors to be able to establish what is their security and the application they provide. Each agency as they do their security testing has to understand what that threat is and be able to test it. We run penetration testing from our network center to test different components. I don't have a specific example of a vendor who had an application fault that misrepresented it. Often times there is a miscommunication of threat that is available out there. The solution is created within agencies and through our team to see how it can be resolved.

Mr. Scott asked do you not reach out to agencies, when you are given notice it seem it's incumbent for DIR to spread the word immediately to those agencies that are making use of some platform that is related to the exposure.

Mr. Hoffman responded through the Arch System and the CISO team that sends out information around what our vulnerabilities have been identified, that come from internal or multi state teams that look at these risk. We do disseminate across the board to all the agencies especially if we know if they have a particular software in use. The other way we monitor the traffic flow, if there is a particular threat that is identified going across the network, we will then send that information to the agencies so they can respond to or identify whether it is or not.

Ms. Shaunessy commented if you knew there had been a data breach and that it was related to a contract from a particular vendor. Would you inform any other state agencies that have that vendor of the breach?

Mr. Hoffman responded yes and we would work to make sure that we would be able to circumvent that through a patch or upgrade. We would work to make sure the patch is upgraded and then push it through to all the different agencies.

Mr. Kimbriel commented when Grace Windbigler comes up, he would like her to discuss our contract termination process.

Mr. Hoffman shared the last area of discussion for the CTO department is the Strategic Planning for DIR. DIR leadership met last year to go beyond the Mission Statement and looked to define what are key objectives to focus on in the 1, 3 and 5 year plans. Each division has subsequently put together goals associated with these objectives. Projects tied to these goals are being tracked by the management team and reported agency-wide to ensure transparency. Beyond the objectives a Core Value of "CAN DO" was identified. It is a little cliché but the attitude is one which will drive success in achieving our goals and promote IT Leadership. Within the Strategic Planning for DIR is focus on DIR's outsourced services.

Mr. Scott commented if part of the reason that there is 4130 identified business applications because we too can do. There might be one and it might not be perfect for TXDOT or TDI and University of Texas but we can get some efficiencies if we say, you are all going to learn to use this one and maybe it's ten or thousand, seems like a lot of room to work towards.

Mr. Hoffman responded several facets of that application portfolio manager will show us all the different agencies who are using very similar applications. One of our efforts is how do we leverage shared services and key objectives. How can DIR through us providing or someone providing it create a shared solution so multi agencies can be on the same path, same application base and maybe behind the scenes it may look different to the citizens but at the core it is still one application, one solution. It's a key effort for us to be successful in strategically reducing the number of applications and the cost and decreasing deficiency.

Mr. Scott asked how long has DIR been in existence?

Mr. Kimbriel answered 25 years.

Mr. Scott asked are any of these systems over 25 years. How many are predate DIR or a real old system problem and how many things that we attempted that we can't do too much through the years? We need to get people more focused on??

Mr. Hoffman responded there a pretty strong curve in that 8-13 year old system range. Keep in mind these systems are not DIR systems or applications of each agency. This is a combination of all different agencies. Of the 4,000 systems, DIR's applications are in the dozen or so. While we have IT Enterprise, IT perspective and understanding where we are in the state. Our authority to go in and change specific solutions and applications is very limited.

Mr. Scott commented do we make sure we convey that message to the Legislature so they understand that we are not even at the tip of the iceberg in controlling insufficient use of applications by state government.

Mr. Kimbriel replied we will definitely carry that message forward.

Mr. Mattax asked have you'll taken a look at things that are common. Everyone has open records. Has there been a common idea let's have a common open records tracking system for every agency, everyone has document imaging. Has there ever been a situation where we thought about, I think every agency has a different document imaging system, every agency has a different open records system. All agencies over the years are developing their own procedures. Has there ever been an idea by DIR to say let's look at things that we know every agency has to have. What do they have and why can't we make something common if not in the past then at least in the future? Then take that to the legislature and say we looked at twelve agencies and they all have a different open records tracking systems. That agency has 3 document imaging systems, that agency has have 4 different document imaging systems and their all using a different document imaging systems. We know agencies are doing common things. What role if any has DIR take in the past? To take the lead on and try to coordinate between these agencies.

Mr. Hoffman responded that was the core to the Legacy Study that was done a couple of years that actually identified that. Until that time we had no statics or data around what are the numbers of systems we have in applications. That actually created the ability for us to then realize there's over 4,000 of them and what is the status? Then the recommendation from that was to look at an application management tool. Let's identify which ones can be shared, where there are solutions to date that others could use. How do we begin that process to interagency to provide solutions on that? Solutions that DIR are looking at today for example the application for the analytics tool. As we develop those the intent is for it to be shared. Specifically around open records solutions, we have not dozed into those but we are looking into where are there overlaps between the different agencies and how can we present that in that report and in that presentation we look to give to legislature at the end of the year.

Ms. Shaunessy commented I saw under SB 20 that agencies have to have contract management software in place. It seems to me that is prime for a DIR initiative if all the agencies have to track their contracts in a similar fashion then it seems like DIR could go through the request for proposal process and come up with some idea maybe 1, 2, and 3 contracting system. It will be nice if the contract management systems talk to open records because the new law requires that contract retention is 7 years after the end of any open records request related to that particular contract. It seems to me if you could get an open records systems that also can accommodate the contract systems. It will be solving two problems that the current agencies have.

Mr. Hoffman commented that the cooperative team is working with IT solutions and systems for DIR. I'll ask them to speak on how that can be leveraged with other agencies.

Mr. Kimbriel commented that we have been in we have been in numerous conversation with a number of particular software vendors where there is a high incident of duplicate licensing programs.

We are working with each of DIR's divisions identifying long-term strategies to keep the technology current, competition embedded, and consistency in reporting and data management. These all tie into a DIR Strategic Roadmap.

TOPIC

7. Digital Government

DISCUSSION

Ms. Jennifer Buaas, Assistant Director of Digital Government provide an overview of the Digital Government. The Digital Government division consists of these three departments: Information Technology Services, Information Security Office and Texas.gov. In most Board

meetings, we only provide a Texas.gov status and fee approvals, but today, we wanted to recognize the functions of all of the departments within the division.

Ms. Buaas also continued the overview, the Information Technology Services (ITS) team provides all DIR internal automation needs. Examples of daily activities include: providing computer hardware and software to support every DIR employee, application development and business process automation, as well as Support and maintenance for all DIR technology. The Information Technology Services team recently released the customer portal and Statement of Work Approval application to support Senate Bill 20. The team responds to an average of over 200 Help Desk tickets/month.

Ms. Buaas informed the board the Information Security Office (ISO) plans, coordinates and controls information technology security for the agency. The Information Security Officer also serves as the Continuity of Operations Coordinator. The third program in the Digital Government division is Texas.gov. Texas.gov is a self-funded public private partnership between DIR and Texas NICUSA. The Texas.gov portal provides a single point of access to Texas government information. All services provided through Texas.gov are secure and accessible. Also, the portal and most Texas.gov services are mobile optimized to accommodate handheld devices such as smart phones and tablets.

Ms. Buaas informed the board there are a few important facts to note about the program. The enabling statute for the Texas.gov program is Texas Government Code Chapter 2054. Of particular interest to the DIR Board is Section 2054.2591 which relates to fees. The language allows the DIR Board to set fees that a state agency or local government may charge for a transaction that uses the Texas.gov project. The fee set by the DIR Board is in addition to any other required statutory fees. The Texas.gov contract began on January 1, 2010 and the term ends on August 31, 2018. DIR does not receive any revenue from the program. It is a common misunderstanding from customer agencies that DIR earns revenue. The Texas.gov funds do not flow through DIR. All funds flow through the Treasury and then they are disbursed to customer agencies and Texas NICUSA. As I just referenced with the enabling legislation, the DIR board approves fees that will be paid for by the public and other agencies. And, as part of the contract, 40% of the overall Texas.gov program revenue is deposited into General Revenue fund. This is not a statutory requirement. We have 4 DIR staff members responsible for program management, governance and oversight, review and approval of new projects and enterprise level coordination.

Ms. Buaas shared currently, we have over 70 Texas.gov customers from state agencies, institutions of higher education and local governments. Type of services available through Texas.gov include Licenses and permits, Fees and fines applications and payments, Driver type services (vehicle registrations, driver licenses, driver records) as well as Vital records that include birth and death records. In addition to over 1,000 services, Texas.gov hosts the Texas Veterans Portal, Texas Wide Open for Veterans website and the Open Data Portal. The Texas Veterans Portal promotes veterans services in Texas. The Texas Veterans Commission (TVC) and Texas.gov manage the Veterans Portal Advisory Council (VPAC) that is responsible for maintaining the content on the site. The Advisory Council is made up of 8 participating state agencies.

Ms. Buaas shared the Texas Wide Open for Veterans website provides online resources to help active military and veterans discover civilian opportunities in Texas. The site was a joint project developed in 2014 by the Texas Workforce Commission (TWC), Texas Veterans Commission (TVC) and Texas.gov. The Open Data Portal found at data.texas.gov, allows agencies to post and share high-value data online. It provides *self-service* data analysis capabilities where

citizens, businesses and government can analyze and innovate on their own. At each board meeting, we report the quarterly transaction and revenue trends to the Board, but today, we wanted to share the annual data.

Note: Mr. Daran Anderson left the meeting.

The drop in revenue from FY 14 to FY15 was primarily due to two programs (eFiling and TxSmartBuy) that successfully transitioned to their respective owners, the Office of Court Administration (OCA) and the Comptroller of Public Accounts (CPA). At the same time, you can see that Texas.gov is processing more transactions – roughly 12M more in FY 15 than FY14. This increase in transactions is related to the new Single Sticker legislation that eliminates the inspection sticker. Before March 1, 2015, every inspection station batch ordered inspection stickers, but now that a sticker is not issued, the state collection for an inspection occurs as an individual transaction. I should note that the Texas.gov program provides the vehicle inspection system application for non-emission counties. We've worked very closely with Department of Public Safety and Department of Motor Vehicles and if you have questions in relation to the timing of when you need to be inspected, we can assist. Earlier I referenced the fact that Texas.gov contributes 40% of total program revenue to General Revenue. This is also commonly referred to as State Share. To date, Texas.gov has contributed approximately \$238.4 million to the general fund since inception of the program in the year 2000. And 74% of that 238.4 million has been contributed since the start of the Master Agreement

TOPIC

8. Chief Operations Office Overview

DISCUSSION

Mr. Dale Richardson, Chief Operations Officer, introduced himself to the DIR Board members. We're responsible for day to day operations in our Communications Technology Services group, headed up by Wayne Egeler (that covers Network Operations, Security, and the Capitol Complex Telephone System), the Technology Sourcing Office is led by Grace Windbigler (for our Cooperative, and Enterprise Contracts), and the Data Center Services program is led by Sally Ward, providing operations oversight and vendor management. We also have responsibility for two agency support groups, the Project Management Office, (that manage some of our top priority projects) headed up by Craig Myers, and a new group recently formed to focus on service delivery of our programs at the enterprise level is Customer Service Operations group is led by Lorie Ramirez.

The Customer Service Operations group was formed to primarily work across all our program areas on building and strengthening DIR's customer relationships. Mainly focused on the effectiveness and efficiency of services we deliver across our programs. This group was formed last September, and has been busy ever since, learning how to maximize the value to state customer's that utilize our services. It's about getting out and meeting with our customers daily and really understanding how we can improve the overall service delivery process and experience for them. At the enterprise operations level, whether its service fulfillment timeframes, meeting service delivery expectations, or service incidents not being addressed, this group will focus on ensuring any main operational issues get addressed properly and resolved. The group is also focusing on developing a process to store and update customer interactions and data as part of developing a single source of record for all our customers. Today each program area has customer data that is unique to their services...but in the near future, we can potentially provide better customer service and support knowing how each customer as a whole is consuming our services to see if there's opportunities for overall improvement or synergies.

The Project Management Office currently oversees 60 active agency projects. A subset of these projects in progress directly relate to our agency objectives John Hoffman mentioned earlier. For example in Shared Services – we have a project to transition the Capitol Complex Phone System, currently on very old technology, over to a next-generation Voice over Internet Protocol system...with phone rates for the new service staying the same. Wayne in our CTS group will speak to this project a little later. Last year, we rolled out a new project management tool across the organization called Innotas. Innotas is now utilized by each group in DIR to track their projects or initiatives and provides the ability to monitor the required resources of agency personnel to complete projects. This gives us insight and focus at the agency and division level into how many projects we can actually take on at any given time to successfully meet our objectives. The group is constantly improving the project processes here at DIR and continuously seeks to help each division meet their project goals and objectives. The group also provides a PM Lite training guide on best Project Management practices to state agency's for their use.

Note: Mr. Stuart Bernstein left the meeting.

TOPIC

9. Technology Sourcing Office Overview

DISCUSSION

Mr. Richardson introduced Ms. Grace Windbigler, Director of Technology Sourcing Office.

Ms. Windbigler provided the overview for Technology Sourcing Office (TSO). The Cooperative Contracts Program houses our statewide master contracts. We have approximately 750 contracts for IT hardware, software, and services that DIR eligible customers can purchase off of. Our customers that purchase off these contracts are: state agencies, institutions of Higher Education, K-12, cities and counties in Texas, assistance organizations and (state agencies & local governments of) other states. Also, last session HB 2000 passed and added 5 new customers to the coop program: Those are ERCOT, LCRA, Volunteer Fire Departments, Private Universities and private schools. The second area in TSO is the Enterprise Contract Management Program. These are our large state-wide outsourced agreements such as: TEX-AN, the telecommunications network contracts; Texas.gov, the online portal; and Data Center Services contracts. This group also manages our internal contracts for DIR such as Internal Audit and Office of General Council contracts; as well as those contracts that need more of a customer touchpoint such as Cloud Services, DBITS, and IT Staff Augmentation Contracts.

Mr. Scott commented when we have the cooperative contracts out there, I assuming DBITS contracts are in the cooperative or is that separate.

Ms. Windbigler responded they are awarded under the 2157 statue but they are managed under enterprise contracts because they need more of a hands on touch point. They're monitored under that group.

Mr. Scott asked if each state agency encounters a breach are they supposed to award a grade vendor performance rating and give that to the Comptroller.

Ms. Windbigler responded correct.

Mr. Scott commented how do we access that information to then know which potential clauses that we have globally negotiate or high risk, low risk or no risk that we have experience. We get more information probably than any individual agency and to be able to do a good job of managing contracts. It will be nice to understand the risk factor associated with different clauses of the contract.

Ms. Windbigler responded we monitor that specific item at different points. As part of our evaluation criteria we use the vendor performance system that the Comptroller has. That is part of what we do when we are evaluating whether we are going to award a contractor or not. Also when we going through renewals that is something we take into consideration. We look at what their rating is. It's one of the factor we use on whether we are going to renew the contract or not. Also we are required by statue, when an incident occurs we are required to post that on the website. So the public knows when if there's a problem with the contract.

Ms. Windbigler commented that a question was asked what happens when we know about an incident. We will go and do an audit. We will do an investigation to see what was or if it was something was in conflict with the terms and conditions, if they actually had a breach. If they were selling something that was outside the scope of the contract, we will make that determination. It can lead to termination for convenience, termination for cause, it maybe something that we can remedy and we will issue a cure notice. All that is part of the monitoring process that we take care of.

Ms. Shaunessy asked does the DIR contracts include the EIR clause requirements for the state, the accessibility clause.

Ms. Windbigler replied yes, all contracts do.

Ms. Shaunessy asked what would happen if a vendor isn't complying with the accessibility clause or the vendor wants to go and change the accessibility clause. Or the vendor wants to change the accessibility clause when they get into an agency. I understand you can't change a clause in the DIR contracts.

Ms. Windbigler responded that is correct they can't weaken those clause, they can make them stronger. They can't water down our clauses but they can make them more stringent.

Ms. Shaunessy commented every contract does include the EIR clause which is required by state on accessibility.

Ms. Windbigler responded I can't think of one that is not.

Ms. Shaunessy asked is it possible on your agreements to limit the liability to only the last 12 months on what's been paid by the state on those contracts. The maximum amount that the state could recover in case of a breach is just the payments paid in the last 12 months.

Ms. Windbigler responded that is the language that was in some of the prior cooperative contracts, we actually extended that so it's 36 months. In some instance where it could be egregious with the breach such as cloud services.

Ms. Shaunessy commented the decision making to have the limit of liability, who's decided that the state should be able to agree to limit of liability at all and to limit the liability of vendors. What is the thought process? Why is there a limit to that liability?

Ms. Windbigler responded that is something we work with legal counsel on. We got that language from the Contract Advisory Team.

Ms. Shaunessy commented is curious is Texas law allows that people who can sign for different agencies to actually sign agreements that limit the liability that agencies could recover in case of a breach of agreement.

Ms. Windbigler will speak with Martin Zelinsky and respond to Ms. Shaunessy at a later date.

Mr. Scott asked that 75% of our contracts are from non-state agencies.

Ms. Windbigler responded they are with volunteer customers that is correct.

Mr. Scott commented what are collection resources and communications of potential breaches and security back to that group of customers. How do we collect that information? I don't know if they are under the same obligation to report their issues to the Comptrollers and they may be

Ms. Windbigler responded no but we have touch points with each contract manager that we have is assigned specific contracts and when they know of an incident they report that on the Comptroller's website. We are told by the customers and if they're outside then we can make that notation and we can report that.

Mr. Scott commented to Ms. Shaunessy's point on the contract limit of liability that then is going to be fixed term that each of the volunteer customers subjective themselves too.

Ms. Windbigler responded that is correct.

Ms. Shaunessy asked as a result of the Legislation session, the vendors have to be reported on Texas Ethics Commission on certain contracts. Will you be implementing that in your purchasing process or are you relying on the customers to do that? I think it will be handy for the customer to know that if you approve a vendor that they already filed with the Texas Ethics Commission and filled out the required form. Have you considered adding that to your process?

Ms. Windbigler responded we are actively doing it now. We are updating a lot of our procedures and we are going back for another review with the contract advisory team and this is actually one that we added.

Ms. Shaunessy commented sometime in the near future the customers will know that if they make an agreement from DIR, along with taking that agreement will come along with also come a copy of the Texas Ethics filing. In the Comptroller's handbook we are required to have that in our files. It would be handy if we had a link to it.

Ms. Windbigler responded we are looking at it and seeing how we can get a copy of that. When going to look at it, we were having trouble accessing that information. We have taken a little extra time to make sure whatever we update the vendors have to adhere to and have to include that we can actually get a copy of it.

Mr. Scott commented there is always a provision in a lot of these contracts that there be a HUB plan. What do we do to see what compliance with HUB plan was before the contract?

Ms. Windbigler commented she is coming to HUB information. The third area in TSO is the Sourcing Analytics team. This group: receives and loads the monthly Vendor sales reports; performs audit reconciliation on the administrative fees; performs statement of work reviews; and manages the TSO automation projects. Last is the Historically Underutilized Business (HUB) program. The HUB area reviews HUB Subcontracting plans for the Cooperative Contracts and Enterprise Contracts programs; report on internal and external HUB dollars spent; and participate in HUB events toward meeting DIR's Good Faith Effort Goals.

Mr. Scott commented if the vendor gives a good faith effort and they fail to meet that, do we disqualify that vendor next time? If not, why do they not have a huge negative number on their scoring sheet?

Ms. Windbigler indicated it is a good faith effort, it's not something you can do a pass/fail on. The way the law reads it's a good faith effort goal.

Mr. Scott commented that our goal is to implement it. The easier way to implement it is to penalize those that say they are going to this and they plan didn't work.

Ms. Windbigler commented that is not the way the Comptroller runs the program.

Mr. Scott asked would we be violating law if we started holding vendors accountable.

Mr. Richardson ask does the vendor get graded on their ability to utilize HUB.

Ms. Windbigler responded no. It is a good faith effort. The way it gets reported is what the good faith effort was obtained for that contract.

Ms. Shaunessy asked when you seek the contracts, are you actively trying to see HUB business that could also respond and provide the services. Does the Comptroller guide book says you need to get two HUB vendors to bid on every proposal? Do you incorporate that into your process?

Ms. Windbigler responded yes.

Ms. Shaunessy commented you will have many contracts that are simply with HUB people on their own. Is that correct?

Ms. Windbigler responded yes. Right now out of 750 contracts, we have 170 contracts with HUB prime.

Ms. Shaunessy what is your goal in 3 years, 5 years what is goal on how many contracts you will have with HUB organizations? How do you expect to obtain those goals?

Ms. Windbigler responded she will get that information from our HUB coordinators.

Ms. Shaunessy is very interested in finding out what DIR's wants to do to expand the HUB. Also I believe state agencies want to use HUBs as much as possible but also I think that because of your single expertise in this area and your ability to talk to the market vendors. You have the opportunity to bring more HUB vendors than maybe state agencies know to find.

Ms. Windbigler responded one of the things instituted on the new redesigned website is now we have for everyone in cooperative contracts, we have a table below that shows HUB resellers. That way the customer knows that they can either go to Dell directly or the go to HUBs they have on contact, buy the same item and be given HUB credit.

The steps we take in procuring contracts: we perform needs assessments and conduct research to determine what our customers need on contract, our procurement and contracts templates are all sent to the Contract Advisory Team or CAT for review, we fulfill the procurement statutory requirements by competitively procuring the Cooperative Contracts. We issue the RFOs and post them on the ESD. We receive responses, and then perform evaluations, negotiations and award the contracts. These contracts are posted on our website for customers to utilize so that the citizens are served. Ms. Windbigler discussed the FY 2016 first quarter sales chart through the Cooperative Contracts.

Mr. Scott asked what percentage of those will be existing over contracts vs. 2015 contracts.

NOTE: At 12:22 Wanda Rohm left the meeting by video conference due to technical difficulties.

Mr. Zelinsky informed the board to stop the procedures for the open session and re adjourned as a committee

At 12:23 Mr. Scott adjourned the meeting and reconvene as a committee.

Mr. Windbigler informed the board what she can do out of those contracts that are active, I can find out which ones rolled on. We are continuously in contract procurement. We don't stop just because it's a fiscal year or because of SB 20. What we do is at that time, we are agile and we change the terms and conditions to meet what the new requirements are. I will let you know at the next board meeting what contract count was at the end of the fiscal year and the beginning of 2016.

Ms. Shaunessy commented for the next meeting if you could tell us what changes DIR has seen as a result of SB 20, what challenges and what your responses were. If you have suggestions for other agencies and how they should respond based on if you had to make changes in your contract. Has there been any other communication with agencies on what they should do for your contracts as a result of SB20. Has there been?

Ms. Windbigler responded we are in constant communication with the agencies. DIR had town hall meeting and webinars. We continue to do that and as we evolve, we have FAQs on our website because we've gotten questions from agencies about here is a scenario given SB 20.

Ms. Shaunessy commented she would love to know how DIR has change and evolved as a result of SB 20. I think the legislature would also like to know so they can feel better to know what things have been implemented and changed as result of their legislature.

Ms. Windbigler commented DIR has changed a lot of its methods and monitoring, we seen some interesting behavior with the program. It will be interesting to share that with you.

Ms. Windbigler discussed the action items that will be brought to the Board for approval on contracts and amendments. In 2012 DIR updated the TAC 201.6 to include rules on board approval for major contracts. Major contracts and amendments are presented to the board for your consideration and approval. Major contracts are defined as contracts valued greater than \$1 million. Each board meeting, as part of your board book we provide a contract report that shows Contracts valued at \$100K up to \$1 million; and Contracts that exceed \$1 million. At each the board meeting in August, we will bring the annual procurement plan to the board for your approval. It lists all the contracts that DIR plans to procure in the upcoming year.

Mr. Scott commented if you will want the Board to vote on something. Mr. Scott would like to review it prior to the board meeting.

Ms. Windbigler informed the board that we HUB and cooperative contract board subcommittee meeting and anything we are going to present before the board. We will bring it before that committee. We go through all the specifications of the contract and what we did to get it up to it being executed and same thing for the amendment. Usually the subcommittee includes two board members but if we need to send out to all board members we can do that.

Mr. Scott mentioned to have it available to any board member that wants it.

Ms. Shaunessy asked will it say for each of the proposed contracts who has reviewed and approved them. Will that be in the materials as well?

Ms. Windbigler commented on the annual procurement plan has not gone forward yet. It's an idea of what we are going to do and it hasn't gone to the CAT team yet. It is just what we're going to do.

Ms. Shaunessy commented for the contract that you want the board to approve. Will it say this has been approved by you, by Mr. Zelinsky, etc? Will it say in the packet who has reviewed if from DIR and approved it?

Ms. Windbigler commented we provide that.

TOPIC

10. Data Center Services Update

DISCUSSION

Mr. Richardson introduced Ms. Sally Ward, Director, Data Center Services.

Ms. Ward provided the overview for Data Center Services (DCS). The data center services program was created in 2005, as a result of an LBB Staff Performance Report. The report recommended the state consolidate data center services in order to better manage statewide costs for IT services, modernize aging equipment, and improve overall security and disaster recovery capabilities. House Bill 1516 in the 79th Legislature authorized DIR to consolidate mainframe, server, data center facilities and bulk print/mail services to state agencies.

In 2007 the state contracted with an initial vendor to migrate 28 state agencies infrastructures into 2 consolidated data centers. At that time the state transitioned approximately 560 state employees to the vendor and the agencies FTE caps were subsequently reduced. I add that because you asked about cost comparison between the data center and a purchase of a hardware component. It is important to realize that the data center is not just hardware and software, but is also IT infrastructure services.

Mr. Scott commented those are true no matter whether the services are done. It really is an apples to apples. The fact that there may be an agency that doesn't understand that, we should be able to figure that out. You should be beating people away from the door from wanting to get in on what is otherwise a great deal, because they recognize it. It seems like to me that ought to be the drive. So, when you hear an outside agency complain that they feel like they're getting a bad deal because they are having to go through this. Then that seems like a communications issue with that agency to make them better understand the value of what they are receiving. Maybe they have a legitimate issue that we can address, and that way everybody is better off.

Ms. Ward responded we agree.

Ms. Shaunessy commented that you stated you have a self-insured disaster recovery. If your data is lost, then does DIR pay the agency if the status is lost, or how does that happen?

Ms. Ward response – self-insured means that we don't have a separate contract with a third party vendor that in the event of a disaster we would recover that application and data in some offsite location. There are a number of companies that do that. Self-insured means that if we lost the Austin data center, we already have our data replicated to the other data center. In the event of a disaster we would then bring up the Austin Data Center capabilities within the San Angelo location. We do not have a third party contract.

Ms. Shaunessy commented there's no insurance involved, it's just that you have a plan to how to handle the data. If there is a tornado in your building and it destroys your building and your computers, then you have it setup to automatically self-recover in another location?

Ms. Ward responded there are various levels of automatic in the recovery, but yes. The term self-insured in the disaster recovery industry means, you either buy an insurance policy from a third party vendor and pay per month in the event of a disaster they're going to have the ability or capacity to bring you up in their data center, wherever it is; versus self-insured means I don't pay somebody for insurance, I actually own the infrastructure that I will use in the event of a disaster.

Ms. Shaunessy asked if there was a tornado in Austin, how long it would be before the data is accessible from the other location.

Ms. Ward responded it would depend on the application, what the agency has chosen to procure and put aside and how well they have engineered the failover for their application. The agencies will choose to spend more money on the priority applications with automatic fail over or a short recovery time and they'll replicate their data more frequently and they may spend more money for that and may have more infrastructure in the alternate data center in the event of a disaster; versus an application that is less important and isn't on the health safety and so forth. That one they could recover in, say 3 weeks. That would be the length of time for that application and they would pay less for that.

Mr. Scott asked wouldn't the bigger risk than a tornado hitting down in two different counties, than there is a virus from some other country or in our county; that hits? It seems like if they're sending a virus; that the virus would just as easily get through one as it does the other, because they probably have the same security system. It seems like it makes it tough to guarantee what we are trying to accomplish?

Ms. Ward responded that I think that we are doing really well in that area. Within the data center, we do have security monitoring and threat analysis. If there is a threat, again 75% of our compute, resides in one of the two data centers and 25% resides in agency legacy locations. It depends on where that threat or breach may be. We have tighter controls in our data center to avoid and protect that risk.

Mr. Mattax commented that you're addressing a security concern, not a disaster recovery concern. These are two separate things. This is another area that we need to be concerned about, which is whether the data actually gets lost here and that's a failure of the agencies and DIR to support their backup systems when they are upgrading. That's an operational function. We have three potential problems: security breaches which is a virus coming in; a disaster where a whole system goes down; and then operational risks which is when a system is being upgraded, whether the system has been backed up, but upgrade fails and the data gets lost. These are separate issues.

Ms. Ward commented, Mr. Mattax is correct. We did have problems with operationally losing some data, initially with our prior vendor. This was one of the reasons we had low customer satisfaction. We have since that time standardized on a new technology product for backup and recovery. This is not just tapeless, but it automatically duplicates data to the alternate data center. We now have 70% of our backup infrastructure moved to this new technology; that provides more assurances of data recoverability. We will continue until we hit 100%. Mr. Mattax is right, that is an operational issue and one we worked hard to address.

Ms. Ward continued Customers contract with DIR for contract services. DIR then provides vendor and contract management of the program. Capgemini performs as the Multi-sourcing Service Integrator, providing performance management oversight as well as services that cross all technical towers, such as the help desk and financial invoicing. The four service delivery towers in yellow represent one contract with Atos. The green service delivery tower for print/mail represents another contract with Xerox.

Ms. Ward informed the board while mainframe and print mail services were consolidated by 2009, server consolidation has proven more difficult to attain. The program's goal is to attain 75% server consolidation by August 2016, and we are on track to meet that goal. Traditionally, in the board meetings, I will be showing you service level agreement (SLA's) attainment. Overall our service level performance remains constantly strong. Monthly we solicit our customers for their ratings of our vendors' performance. The customer ratings are stable. We also have through our MSI processes that insure that service providers are identifying and addressing all improvement areas, which is the yellow and red on your graph.

Mr. Scott asked how long has the data center consolidation been going on?

Ms. Ward responded since 2007. It was halted for a period of time while we transitioned vendors.

Mr. Richardson commented that is a big goal that we are about to hit this year. This is the originally mandated program. The consolidation was one of the harder IT projects to do. We are on track to make this goal.

Mr. Mattox commented I have two questions on a satisfaction level. You have a high level of satisfaction, but you do have some complaints. Are the complaints from the same agencies time after time or is it a variety?

Ms. Ward responded we have a variety, but there are trends. We do not have any agencies that have been constantly dissatisfied for any long period of time. We do have constant trends and MSI does generate heat maps that determine which customers are dissatisfied about which things and for how long. They are then put into a log and monitored/tracked to make sure that the problems have improved or been eliminated.

Ms. Shaunessy commented It appears that in September 2015 to December 2015 increase in the needs improvement, where there any specific areas that needs improvement? Was it in the transferring of data or the retention of data, what sort of areas were causing the most needs improvement?

Ms. Ward responded there were a couple of areas of most needs improvement. One is in the actual management of Windows type technology, not the data, but it was specifically the actual ongoing operational maintenance of patching, incident management, and change management within the Windows area. There is a service level improvement plan that has been put into place for Windows technology and is now being executed. Then in print mail, the operational performance in print/mail was weakening in some of the agencies. There is a service level improvement plan being developed for them as well. There are some individual agencies with individual issues and those also get improvement plans.

Mr. Scott asked what the difference is needs improvement, immediate corrective actions and what's acceptable?

Ms. Ward responded each customer is asked to rate 11-15 different areas on a scale of 1-5. Anything that is 3, 4 or 5 says your meeting my expectations. A 2 (yellow) says, I'm concerned, I really would like to see some improvement and hear the things I'm concerned about. A 1(red) says, you really have to make an improvement immediately.

Mr. Scott asked does that link to the specific complaint that they have.

Ms. Ward responded yes. There are comment boxes for each and every rating and they put in what their exact issue is. The MSI then meets with the agency every month on every score card, on every comment and makes sure that they understand what the problem and that they are working to solve each and every one. This is a monthly exercise. The amount of data behind that we receive from the various agencies on the score card is enormous. The score card is also automated and online for them as well.

Mr. Scott asked can we get the 2015 calendar year and ongoing, listing of those agencies, with their specific problems and the resolution.

Mrs. Ward commented LBB completed a performance review of the DCS program and consolidation, and determined that the program was meeting its original objectives. The LBB published a report a year ago (2014) that generally evaluated whether we had met the intent of the legislation from HB1516. We can also get you a copy. It stated that the program is meeting its original intent and needs to continue and meet consolidation. They had no recommendations for changes.

Mr. Mattax requested for each board meeting a report of the red and how it was fixed.

Mr. Mattax commented at the next board meeting can you give us a report on the red and how it was resolved for the last 3 months December, January and February and if there were any trends in yellow, let us know that.

Ms. Ward commented looking to the future, we will continue to focus on completing server consolidation, which will include a focus on decommissioning old hardware that remains after server compute is migrated to new infrastructure in the consolidated data centers. We will continue to improve the speed with which our vendors can build new servers to meet our customers' increasing need for speed and technology. We are implementing public government cloud options with self-service Marketplace tool to our catalogue of services which will provide our customers more flexibility and choice.

TOPIC

11. Communications Technology Services Update

DISCUSSION:

Mr. Richardson introduced Mr. Wayne Egeler, Director, and Communications Technology Services.

Mr. Egeler provided an overview for Communications Technology Services (CTS). CTS manages the statewide communications infrastructure that provides voice and data solutions. This program provides local voice, long distance, Data and wireless services to state and local government agencies. There are 4 contracts that we oversee in the Communications Technology Services organization. The contracts are TEX-AN, Telecom Managed Services contact which has 11 Vendors. These vendors provide a wide array of services such as call center, network optimization, and management of voice and data networks as well as many

other services. The 3rd contract is our Wireless, Pagers and Satellite contracts. DIR has four wireless vendors, two vendors who provide pagers and one satellite phone vendor. Many of our customers are exploring the use of wireless technology to augment some of their current wired line facilities.

Mr. Scott asked who uses pagers.

Mr. Egeler some of the nurses and state supported living centers will carry pagers around because they go to different buildings and are on-call. Pagers are a reliable method for healthcare professionals.

Mr. Egeler informed the board we are currently in the middle of a reprocurement of which we are targeting to have awarded by the middle of March. We have four technology based conferencing contracts, who provide audio, video and web conferencing as well as web casting services. One of the ways that we are seeing the video conferencing utilized is for Board Meetings. Often Board Members reside out of town so this aides in assuring a quorum can be met. HB 2414 of the 83rd Legislative session allowed for boards to make a quorum via video. DIR uses it regularly and other agencies are utilizing it also. The network engineering and operations team manages the DIR owned network and the assets that reside on the network. The team provides planning, engineering and operational support of the state owned network as well as support to our customers. In total the Engineering and Operations team manages approximately 1000 devices. The team is seeing an increase in demand for assistance from our state agencies as there network needs and bandwidth demands continue to increase. The team works closely with the agencies on design and connectivity back to the DIR network from the agency location. The team also provides assistance and recommendations on technical questions that arise from our customers. The Engineering and Ops team provides a 24x7 help desk and escalation support to our State Agencies.

Our Security Operations team provides perimeter protection on our Internet Gateways for our customers under Texas Government Code 2059. Agencies are currently mandated to utilize our Internet service. When this service is provided through DIR to our agencies it is not just a raw internet pipe. We have security layers that sit on top of the service that we provide. We perform intrusion detection and prevention, Denial of Service Mitigation, monitoring, analysis and alerting. Once we have discovered what we consider to be an actionable and timely security alert we notify our customers through our alerting process. We not only send the alert with all the important information but we also send them possible remediation that they can utilize. At the NSOC we are currently protecting over 2.8 Million Public Facing IP addresses and blocking in excess of a half a billion attacks against the State of Texas a week. The Security Operations team works very closely with Eddie Block and the Chief Information Security Office on all security aspects to assure we are completely aligned. Our TEX-AN contract is a major contract that provides competitive telecom and data services through a multi- vendor offering. The program was established in 2011 with a 5 year initial term. We currently have 6 vendors on contract that provide telecom services to our customers. Sales continue to grow surpassing 80 Million dollars in annual spend from our customers.

The Capitol Complex Telephone System (CCTS) team provides technical services, support, maintenance and management for the telephone system that serves the Capitol Complex. Ninety-one state agencies housed in the Capitol Complex area in downtown Austin use these services. As of December 2015, CCTS supports approximately 24,000 lines as well as dial tone to 13 buildings off campus. Our Directory services operators receive approximately 1500 calls per month. This number more than doubles during session and we will pull other DIR resources to assist our directory services team during this busy time.

Mr. Scott asked is that why there was an increase trouble tickets for FY 2015.

Mr. Egeler commented in FY 2015 the work orders increased due to session. Trouble tickets are going to follow as well.

Mr. Egeler informed the board one of the major projects that we currently have underway is we are transitioning from our Legacy PBX to a Voice over Internet Protocol platform. This platform allows us the ability to provide advanced voice and mobility features to our customers. We currently have 1400 users transitioned to the new platform and are diligently working with agencies on the transition.

Our TEX-AN contract is a major contract that provides competitive telecom and data services through a multi-vendor offering. The program was established in 2011 with a 5 year initial term. We have the option to extend 5 years in any combination. We currently have 6 vendors on contract that provide telecom services to our customers. Sales continue to grow surpassing 80 Million dollars in annual spend from our customers. In Fiscal year 2015 a third party assessment of the TEX-AN program was performed to assure we were meeting our program goals. Some points of interest from this assessment and the program are as follow: The TEX-AN contract resulted in a 13 million dollar savings in the first year, we have had twenty five amendments since the life of the contract, that have resulted in price reductions. An automation tool was developed to provide a quote to care feel. Customers work with the Service Delivery Team on obtaining quotes from one or multiple vendors depending on the agency's request. Once it is determined the service that is to be ordered the customer will then place an order with the Service Delivery team; who will scrub the order and send it off to the appropriate vendor. One of the major value adds of DIR providing TEX-AN service is the single source Telecom Bill. DIR will bundle all of our Texan services and put them on one bill. Our billing team also proactively reviews the bill and will dispute invalid charges. The billing team disputed 22 million in charges over the previous 3 years of the contract.

TOPIC

13. Chief Information Security Office Overview

DISCUSSION

Mr. Eddie Block, Chief Information Security Officer provided the board an overview for the Chief Information Security Office (CISO), also serves as the Cybersecurity Coordinator for the state. Along with my team we provide statewide security services, setting standards and helping agencies build stronger security programs. CISCO has five program areas: Policy and Assurance – CISO does drafting of TAC 202, we work with a group of agencies to build any changes there and IT Council for higher education to see how it impacts higher ed.

Mr. Scott asked are the agencies able to implement those, do they have the technological capacity to get it done.

Mr. Block commented that we had a three year roll out, anything that was already in Legacy TAC was due soon as the DIR board adopted the new TAC. We then had the next level of high risk controls due a year out and the rest of the controls due two years out.

Ms. Shaunessy asked do you offer hacking services to agencies to ensure that their website or portals are safe and secure.

Mr. Block responded yes that is that is what that team does, that is part of the Risk Management pillar. We have both technical and nontechnical assessments. We have a team at the NSOC that does breaking and entering. Then we also have non-technical assessments

which we outsource through a third party vendor. They go out as neutral third party and access processes and procedures side of security. We do more penetration, we do about 50 a year.

Mr. Scott asked how do you determine which agencies get penetration testing?

Mr. Block commented there are head full of high risk agencies that have federal regulated data that we try to make sure we hit every year. The rest of the list we try to cycle through remainder agencies, so every two to three years we're hitting them.

Ms. Shaunessy commented have you thought of the side you have a contract vendor doing it right, have you ever thought seeing if DIR could provide those services in house as part of a revenue generation.

Mr. Block answered yes. There's a separate project that we will get to in a little while that is going that direction of offering managed security services.

Mr. Block continued discussing the areas of CISO, another area is Security Services and we partner cooperative contracts to make sure security services that our agencies need are included in the contracts. Another area of CISO, is Awareness and Education, we have our monthly meeting and webinars that we run. This past year developed an INFO SEC Academy that is directed at the state agencies ISOs. What we seen there was a disparity among security training with some ISOs. INFO Sec Academy was built to help raise the bar instead of standard, there a series of online classes or in person classes. Where ISO can go and learn more about security. For the end users we also manage a pool of online security awareness training modular, we distribute those to agencies based on request. Every agency under TAC 202 has to have security awareness training and some of them did not have that capability in house. We went out brokered for a large pool of licenses. Cybersecurity Operations manage the incident reporting system which every state agency has to file a monthly incident report. For the past decade it has been putting numbers in and not get a lot out. In the past couple of years, we moved to a new system which allows agencies to manage incidents on a daily basis. If they use it on a regular basis then it will generate their monthly report.

Mr. Block informed the board of the Information Security Forum which has been going on for 16 years. It's a 1 ½ - 2 day event with 500 - 600 attendees from public sector employees. CISO also offer vulnerability scanning, web application scanning, security program assessments and decision support services to state agencies. Multiple collaboration opportunities; Information Security Working Group (ISWG) which is made up of the ISO in the state; SISAC Subcommittee, which advisory group for me, it's made up of ISOs and CISOs around the state, but not just state agencies; and incident response tabletop exercises partnered with CIAS.

Mr. Morrow asked why is there two bullets under vulnerability, which read vulnerability scanning and web application vulnerability scanning?

Mr. Block responded vulnerability scanning is really trying to find vulnerabilities within all the systems within IP range. The web application vulnerability scanning is using a different tool set to identify vulnerabilities that live in web applications. Another rider HB 1 for cyber security purchases, we were asked to do a cyber-security bulk purchase for 10 specific agencies and any other agencies that were appropriated funds. We are coordinating that effort through the cooperative contracts group, we can identify the products that agencies need. Figure out which are best fitted for bulk buy opportunities.

Mr. Morrow asked does each agency manage end point protection.

Mr. Block responded yes they do. There are things we do at the edge that prevent certain type of malicious coding from coming in. The agency all should be implemented their own end point protection. If there is a failure on our side, then there's another layer to go through. We tried to provide a significant barrier.

Mr. Scott asked do they know they supposed to have it.

Mr. Block responded yes.

Mr. Scott asked do you'll do a check to make sure they have end point protection. Would you audit them?

Mr. Block commented we do not audit but part of the vulnerability scanning will highlight some of that.

Mr. Scott commented if we know if there is a certain agency that poses a higher risk than others but don't we have an obligation to let someone know.

Mr. Block responded yes and we work with all the agency ISOs through multiple venues to ensure security programs are laid out.

Mr. Block informed the board of additional CISO projects which also includes SB 1877 which required all agencies to complete a data use agreement to be signed by employee who deal with confidential data. We developed sample that agencies can use to comply with that and posted on our website.

Mr. Scott commented DUA federal law requires in September 2015 those be required of all the vendors as well. Does DIR do an inventory through our cooperative contracts to find out what percentage of those folks have executed it? If we know someone access of our vendor agreement through cooperative contracts or any of our contracts. Do we ensure that DUA has been executed by that vendor?

Mr. Block commented not that I'm aware of.

Mr. Scott commented when I was at HHSC, I don't think there was an understanding the importance of having DUAs among the vendors and we tried to highlight that.

Could you get in near future with our cooperative contracts any one of those things that are out there, we know that pass through our hands and should have DUA to send a reminder to whoever the end users are that they should have in effect a DUA that provides for federal law.

TOPIC

14. Statewide Data Coordination Overview

DISCUSSION

Mr. Ed Kelly, Statewide Data Coordinator provided the board an overview for the Statewide Data Program. Data is the most important strategic assets after employee that agency oversees and manages. As custodian for the state of Texas Data, it is our responsibility to protect, govern and share it appropriately with constituents of who we serve. Additional it's our opportunity to share data with other agencies in order to solve complex business problems, increase efficiency and reduce cost associated with management of state data.

Mr. Kelly informed the board recently the Texas legislature has increased emphasis, focus and importance on treating data as strategic asset. During last session, two key statues were passed, first that created an executive level interagency data coordination and transparency

commission to study and review data collection and classification standard for state agency and the creation of this position of the Statewide Data Coordinator. In it the charter is to essentially work collaborate with state agencies and institutions of higher education to improve data governance, improve integrity standards statewide for data. Establish data policy, standards and best practices for around handling and managing data. Mr. Kelly discussed the SSP strategic goal #4 - data utility.

Approved by the Board Chair:

John Scott, Chair

Date